



**American Forest & Paper Association (AF&PA)
Statement in Opposition to Senate Bill 437
(October 1, 2015)**

Thank you for the opportunity to provide a statement on Senate Bill 437. AF&PA and its members understand the important energy policy choices facing Michigan at this time, and the need for reliable, least cost solutions that achieve upcoming environmental requirements. We must respectfully oppose the bill, however, because it would raise our members' energy costs, harming their competitiveness.

Introduction

AF&PA serves to advance a sustainable U.S. pulp, paper, packaging, and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources and are committed to continuous improvement through the industry's sustainability initiative - [*Better Practices, Better Planet 2020*](#).

Our industry employs over 900,000 men and women and is built on principles of sustainability: producing recyclable products from a renewable resource. We support market-based policies and regulations that foster economic growth, job creation, and international competitiveness in this vital sector. We believe public policies are most effective when they meet the economic needs, environmental concerns, and societal expectations of our diverse communities.

AF&PA Members Have Increased Renewable Energy and Reduced Fossil Fuel Use and Greenhouse Gas (GHG) Emissions

The forest products industry produces and uses renewable energy for manufacturing operations and is a significant contributor to our country's existing base of renewable energy. On average, about 66 percent of the energy used at AF&PA member pulp and paper mills is generated from carbon-neutral biomass.

The industry also strives to use that energy, and all energy, as efficiently as possible. The industry is a leader in the use of highly-efficient combined heat and power (CHP), or cogeneration.

Energy purchased by member facilities – most of which is fossil fuel based – was reduced by 8.8 percent since 2005, making significant progress toward achieving our *Better Practices, Better Planet 2020* goal of a 10 percent improvement in purchased energy efficiency.

AF&PA members also have reduced our greenhouse GHG emissions intensity by 23 percent since 2000. We are close to achieving our *Better Practices, Better Planet 2020* GHG goal of a 15 percent reduction by 2020 since 2005.

Increased Energy Costs Harm Our Competitiveness

Even with all this progress, we remain energy intensive and energy represents our third highest manufacturing cost. In fact, in 2013, the U.S. pulp and paper industry spent over \$3.6 billion for purchased electricity. Our members operate in a highly competitive global market in which manufacturers cannot automatically pass on higher energy costs to consumers and still remain competitive.

Concerns with Senate Bill 437

We have a number of concerns with the bill; however, we will highlight three primary concerns.

Dismantling the Consumer Choice Program

The bill includes many restrictions on the Choice Program that are unnecessary, discriminate against Alternative Electric Suppliers (AES), and would effectively dismantle the program. Just a few examples include:

- Restrictions on moving in and out of the program, including a three-year notice requirement for customers to return to utility service.
- Requirements that AES demonstrate they have the dedicated capacity to serve customers for 3 years; that the capacity is located in Michigan; that no more than 5 percent come from market auction purchases; and that the capacity it purchases through Purchase Power Agreements is pre-paid. None of the requirements apply to the utilities in the state.

Collectively, these restrictions and many others in the bill will make it very hard for AES to continue operating in the state and to maintain the 10 percent of the market for alternative providers, which is one of the goals of the bill.

Authorizing Decoupling That will Increase Consumer Rates

The theory behind decoupling is that regulated utilities need to “be made whole” if, for example, increased energy efficiency measures result in decreased sales and therefore decreased profits tied to those sales.

But there are several flaws in this thinking. First, utilities are not guaranteed a certain rate of return—they are provided the opportunity to earn that rate. Second, with frequent rate cases—such as in Michigan where cases can be filed every 12 months—utilities have more than adequate ability to be adjust revenues with expenses, making decoupling unnecessary. Finally, with decoupling, utilities lose the incentive to be as efficient as possible. Accordingly, we oppose legislation that provides for electric or

gas utility decoupling. At a minimum, the provision tying the hands of the Michigan PSC and requiring them to give deference to utility decoupling proposals should be removed.

Losing the Value of the Integrated Resource Planning (IRP) Program

An IRP process can help ensure the choices made to provide electricity to Michigan in the future are as reliable and as cost effective as possible and meet many of the other objectives of the bill. However, to obtain the full value of that process, the bill should require competitive bidding for all future needs that includes demand side efficiency options and capacity from other states. Some AF&PA members' mills can help by providing renewable energy through their CHP systems, as well as by becoming demand response providers. All these resources should be sought in bids and the bids should be evaluated by a third party. Finally, the utility should be obligated to accept the least cost bid as determined by the third party.

Conclusion

In closing, AF&PA and its members look forward to working with the Committee on this important bill. We request that the Committee be mindful of the competitive pressures faced by our members, who told us that they have saved millions of dollars in electricity costs with the Choice program. Losing or restricting that program, adopting decoupling, or foregoing an opportunity to take full advantage of the IRP process, could raise our electricity costs and threaten the jobs our members provide.